



BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION  
OF AJO IMPROVEMENT COMPANY  
ELECTRIC DIVISION – FOR APPROVAL  
OF ITS 2015 AND 2016 RENEWABLE  
ENERGY STANDARD TARIFF  
IMPLEMENTATION PLAN

DOCKET NO. E-01025A-14-0209

DECISION NO. **74831**

ORDER

Open Meeting  
November 5 and 6, 2014  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Ajo Improvement Company (“Ajo”) is certificated to provide electric service as a public service corporation in the State of Arizona.

Background

2. On June 24, 2014, Ajo filed its 2015 and 2016 Renewable Energy Standard Tariff (“REST”) Implementation Plan (“2015-2016 Plan”) as required by Arizona Administrative Code (“A.A.C.”) R14-2-1801 through R14-2-1816. Ajo’s 2015 Plan includes a Plan for Eligible Renewable Energy Resources and a Plan for Distributed Renewable Energy Resources, with a request to resume collection of its Renewable Energy Standard and Tariff (“REST”) surcharge that was suspended by Decision No. 72894 on February 17, 2012. The 2015 Plan also includes a request for a two-year approval of its plan (2015 and 2016), with a waiver of the annual plan filing requirement in 2015 for

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1 the 2016 calendar year. Additionally, Ajo has requested that the waiver of the Distributed Energy  
2 requirement granted in Decision No. 73881 (May 8, 2013) continue for 2015 and 2016.

3 3. According to Ajo's REST Compliance Report for 2013, a total of 400,000 kWh of  
4 renewable energy was procured in 2013. The procured renewable energy was less than Ajo's total  
5 requirement of 467,319 kWh, based on retail sales of 11,682,965 kWh. However, Ajo used carryover  
6 RECs from previous years to fulfill the rest of the Renewable Energy requirement. The procured  
7 renewable energy originated from renewable energy credits ("RECs") generated by Tucson Electric  
8 Power Company's ("TEP") landfill gas operation. The RECs were purchased from TEP by Ajo's  
9 sister company, Morenci Water & Electric Company ("Morenci"), on behalf of Ajo, and were sold to  
10 Ajo at Morenci's cost. Ajo has indicated that it anticipates purchasing additional RECs to meet its  
11 2015 and 2016 total Annual Renewable Energy Requirement.

12 4. In 2012 Ajo reported that it awarded incentives for the installation of three  
13 photovoltaic ("PV") solar power systems with a combined total capacity of 6.2 kW, and an estimated  
14 total annual output of 10,800 kWh. These installations are the first distributed generation systems  
15 installed in Ajo's service territory since the inception of the REST Rules. Although Ajo plans to meet  
16 its total Renewable Energy Requirement for 2015 and 2016, Ajo will not meet the portion of its total  
17 annual Renewable Energy Requirement dealing with distributed renewable energy pursuant to A.A.C.  
18 R14-2-1805.

19 The 2015-2016 REST Plan

20 5. Based on estimated annual kWh sales of approximately 12,500,000 kWh in 2015 and  
21 2016, Ajo anticipates that its total Annual Renewable Energy Requirement, pursuant to A.A.C. R14-2-  
22 1804 will be approximately 625,000 kWh in 2015 and 750,000 kWh in 2016. Ajo further anticipates  
23 that its Distributed Renewable Energy Requirement, pursuant to A.A.C. R14-2-1805, will be  
24 approximately 187,500 kWh in 2015 and 225,000 kWh in 2016.

25 6. Ajo's 2015-2016 Plan is largely unchanged from previous years. Ajo proposes to  
26 resume collection of the \$0.004988 per kWh REST surcharge and maintain existing incentive rates and  
27 collection caps.

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1           7.       According to Ajo, it serves approximately 1,027 customers (843 residential customers,  
2 183 non-residential customers, and 1 resale customer). Ajo states that many of its customers are  
3 retirees or on fixed incomes. Ajo's service territory is remote and approximately one square mile in  
4 area. Ajo does not anticipate much growth in the future. Therefore, the funds collected to meet the  
5 REST rules will be limited primarily to existing customers.

6 Distributed Renewable Energy Resources

7           8.       Ajo would continue to offer incentive payments to customers to install Distributed  
8 Renewable Energy Resources, pursuant to A.A.C. R14-2-1809. Eligible renewable energy technologies  
9 listed in the 2015-2016 Plan include photovoltaic systems, solar space cooling, non-residential solar  
10 water heating and space cooling, small residential solar water heating, small residential solar space  
11 heating, biomass/biogas cooling, non-residential solar daylight and small wind generators. Incentive  
12 payments are one-time, up-front payments based on a 20-year REC agreement and will be determined  
13 based on system capacity and/or estimated annual kWh production. The maximum incentive amount  
14 per project is capped at 60 percent of system costs (including financing) or \$11,000. Ajo intends to  
15 continue to distribute incentives on a first-come, first-served basis, with an equal allocation of  
16 incentives between residential and non-residential applicants.

17           9.       The incentive amounts proposed in the 2015-2016 Plan are unchanged from 2013  
18 amounts, and are as follows:

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**Table I**  
**Incentives for Distributed Renewable Energy Resources**

System Type	Proposed 2015-2016 Incentives
Biomass/Biogas (Electric, Thermal, Cooling)	To be determined ("TBD")
Biomass/Biogas CHP (Electric, Thermal)	TBD
Daylighting	\$0.20 / kWh
Geothermal (Electric)	\$0.50 / Watt
Geothermal (Thermal)	\$1.00 / Watt
Hydroelectric	TBD
Small Wind	\$2.50 / Watt AC
Solar Electric - Residential	\$3.50 / Watt DC for all residential and non-residential systems.
Solar Electric - Non-Residential	
Solar Space Cooling	TBD
Non-Residential Solar Water Heating / Space Heating	TBD
Residential Solar Water Heating / Space Heating	\$0.75 / kWh for projected first year savings only.
Non-Residential Pool Heating	TBD

10. Amounts noted as "TBD" are for technologies that require the applicant to submit an engineering report from a licensed, professional engineer that includes anticipated energy savings and the designated output for the system. Ajo would then review the submission to validate anticipated energy savings and set a project-specific incentive based on the anticipated energy savings.

11. Any customers paying tariff funds of at least \$25,000 annually for any number of related accounts or services within Ajo's service territory are eligible for the "Customer Self-Directed Renewable Energy Option", as codified in A.A.C. R14-2-1809. Ajo states that it does not have, nor anticipates having any customers that would qualify for the Self-Direction Option. Therefore, Ajo is proposing a zero budget for this option.

12. Ajo has submitted the following proposed REST budget:

**Table II**

	2015	2016	2017	2018	2019	5-Year Total
<b>Renewable Energy Resources</b>						
Total Energy - Prospective Procurement (Eligible Renewable Resources)	\$19,688	\$23,625	\$27,653	\$31,500	\$35,438	\$137,904
Utility - Owned Systems	0	0	0	0	0	0

Administration, Implementation, Commercialization & Integration	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$5,000
<b>Renewable Energy - Subtotal</b>	<b>\$20,688</b>	<b>\$24,625</b>	<b>\$28,653</b>	<b>\$32,500</b>	<b>\$36,438</b>	<b>\$142,904</b>
<b>Distributed Renewable Energy Resources</b>						
Incentives	\$305,436	\$370,256	\$435,077	\$499,898	\$564,719	\$2,175,386
Customer Self-Directed Renewable Energy Option	0	0	0	0	0	0
Administration, Implementation, Marketing & Outreach, Commercialization & Integration	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$25,000
<b>Distributed Energy - Subtotal</b>	<b>\$310,436</b>	<b>\$375,256</b>	<b>\$440,077</b>	<b>\$504,898</b>	<b>\$569,719</b>	<b>\$2,200,386</b>
<b>Total</b>	<b>\$331,124</b>	<b>\$399,881</b>	<b>\$468,730</b>	<b>\$537,398</b>	<b>\$606,157</b>	<b>\$2,343,290</b>

13. Ajo's budgets for 2015 and 2016 include more than \$300,000 a year in incentives for distributed renewable energy resources. However, Ajo states that this budget has not been used to calculate the Renewable Energy Standards Surcharge ("RESS"). Rather, the budget is submitted to demonstrate the level of funding required to meet the Distributed Renewable Energy Requirement.

14. On February 17, 2012 in Decision No. 72894, the Commission ordered Ajo to suspend collection of the RESS. Historically, Ajo had collected a RESS of \$0.004988 per kWh, which until its suspension led to an over-collection relative to incentive demand. Ajo in its 2015-2016 Plan proposes to resume collection of the RESS with the following caps:

- \$1.05 per month for each residential customer;
- \$39.00 per month for each non-residential customer;
- \$117.00 per month for each non-residential customer with demand over 3 MW per month for three consecutive months.

15. Based on its current customer census, Ajo estimates that it would annually collect between \$20,000 and \$22,000 from customers through the RESS in 2015 and 2016. Ajo states that the RESS may provide sufficient funding for Ajo to meet its REST Rule requirements through the purchase of grid-tied Eligible Renewable Energy Resources in 2015 and 2016. However, this level of funding will not be sufficient to meet the annual Distributed Renewable Energy Requirement.

16. Ajo states that it does not believe that raising the RESS rates or monthly caps is necessary or appropriate at this time as there has been little interest from customers to install

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distributed renewable generation on customer premises. Ajo states that it would file to amend the RESS if and when customer interest is at a level warranting a higher collection rate.

17. Ajo has collected a relatively large amount of REST funds over the past several years but has not been able to award these funds as incentives due to the lack of customer demand. Ajo states that it had a 2013 year-end "carryover" of REST funds of approximately \$15,325. However, because Ajo filed its 2015-2016 REST plan before it had a chance to procure RECs for its 2014 REST requirement, Ajo believes that the majority of these funds will be depleted by 2015. Based on the small amount of projected carryover compared with Ajo's 2015-2016 Rest Plan obligations, Staff has recommended that Ajo be directed to reinstate the RESS for 2015 and 2016 but at a lower rate of \$0.004 per kWh, beginning on January 1, 2015. Staff has further recommended the following 2015-2016 REST Plan budget for Ajo.

**Table III**  
**Staff Proposed Budget**

	2015 Ajo	2016 Ajo	2015 Staff	2016 Staff
<b>Renewable Energy Resources</b>				
Total Renewable Energy Prospective Procurement (Eligible Renewable Resources)	\$19,688	\$23,625	\$19,688	\$23,625
Utility-Owned Systems	0	0	0	0
Administration, Implementation, Commercialization & Integration	\$1,000	\$1,000	\$1,000	\$1,000
<b>Renewable Energy Subtotal</b>	<b>\$20,688</b>	<b>\$24,625</b>	<b>\$20,688</b>	<b>\$24,625</b>
<b>Distributed Renewable Energy Resources</b>				
Incentives	\$305,436	\$370,256	0	0
Customer Self-Directed Option	0	0	0	0
Administration, Implementation, Commercialization & Integration	\$5,000	\$5,000	\$1,000	\$1,000
<b>Distributed Energy Subtotal</b>	<b>\$310,436</b>	<b>\$375,256</b>	<b>\$1,000</b>	<b>\$1,000</b>
<b>TOTAL</b>	<b>\$334,124</b>	<b>\$399,881</b>	<b>\$21,688</b>	<b>\$25,625</b>

18. Under Staff's proposed 2015-2016 budget, all carryover funds remaining after Ajo's purchase of RECs would be available for award as incentives, should customer demand for these incentives materialize. Additionally, Staff believes the monies collected through the RESS will allow Ajo to procure the RECs needed to comply with the REST standard in 2015 and 2016. Based on the lack of customer demand for incentives in prior years, Staff recommends reducing Ajo's incentive budgets for 2015 and 2016 from \$305,436/\$370,256 to \$0. However, if monies collected through the

1 RESS end up being higher than anticipated, these monies would also be available for award as  
2 incentives. If no customer demand for incentives materializes, Ajo can apply carryover funds towards  
3 future years' Renewable Energy Requirements.

4 19. Staff has further recommended that Ajo be granted a two-year waiver from  
5 compliance with the Distributed Renewable Energy Requirement given Ajo's unique customer profile  
6 and the lack of customer demand for incentives.

7 Tariffs and Plan Schedule

8 20. Ajo has stated that because there have been only three applications submitted for  
9 incentives for eligible distributed renewable energy resources since the inception of its REST program,  
10 increasing the RESS and monthly caps is not justified at this time. In addition, Ajo states that any  
11 unused funds collected would continue to be rolled over to help fund future years' REST  
12 requirements. Therefore, Ajo proposes that its Distributed Renewable Energy Resource incentives,  
13 Customer Self-Directed Renewable Energy Option tariff, and Renewable Energy Standard Surcharge  
14 tariff should remain in effect until further order of the Commission.

15 Recommendations

16 21. Staff has recommended that Ajo's two year REST Implementation Plan for 2015 and  
17 2016 be approved and modified as discussed herein.

18 22. Staff has further recommended that Ajo reinstate collection of the RESS for 2015 and  
19 2016 at a lower rate of \$0.004 per kWh, beginning January 1, 2015.

20 23. Staff has further recommended that Ajo be ordered to adopt Staff's proposed 2015  
21 and 2016 REST Plan Budget.

22 24. Staff has further recommended that Ajo be granted a two-year waiver from  
23 compliance with the Distributed Renewable Energy Requirement.

24 25. Staff has further recommended that Ajo file its RESS tariff in compliance with the  
25 Decision in this case within 15 days of the effective date of the Decision.

26 26. Staff has further recommended that Ajo, in its REST Compliance Report, include a  
27 running total of carryover REC's and indicate when these carryover RECs are used to fulfill its yearly  
28 requirement.

27. Staff has further recommended that Ajo file its next REST Implementation Plan on or before July 1, 2016, as dictated by A.A.C. R14-2-1813.

### CONCLUSIONS OF LAW

1. Ajo Improvement Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Ajo Improvement Company and over the subject matter of the application

3. The Commission, having reviewed the application and Staff's Memorandum dated October 21, 2014, concludes that it is in the public interest to approve the 2015-2016 REST Implementation Plan as modified and discussed herein.

### ORDER

IT IS THEREFORE ORDERED that Ajo Improvement Company's two year REST Implementation Plan for 2015 and 2016 be approved and modified as discussed herein.

IT IS FURTHER ORDERED that Ajo Improvement Company reinstate collection of the RESS for 2015 and 2016 at a lower rate of \$0.004 per kWh, beginning January 1, 2015.

IT IS FURTHER ORDERED that Ajo Improvement Company shall adopt Staff's proposed 2015 and 2016 REST Plan Budget.

IT IS FURTHER ORDERED that Ajo Improvement Company be granted a two-year waiver from compliance with the Distributed Renewable Energy Requirement.

IT IS FURTHER ORDERED that Ajo Improvement Company shall file its next REST Implementation Plan on or before July 1, 2016, as dictated by A.A.C. R14-2-1813.

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IT IS FURTHER ORDERED that Ajo Improvement Company shall in its REST Compliance Reports, include a running total of carryover RECs and indicate when these carryover RECs are used to fulfill its yearly requirement.

IT IS FURTHER ORDERED that Ajo Improvement Company shall file its RESS tariff in compliance with the Decision in this case within 15 days of the effective date of the Decision.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

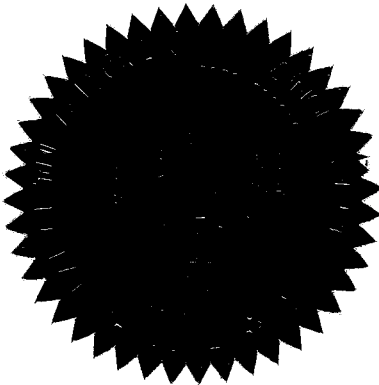
CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER



IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 13<sup>th</sup> day of November, 2014.

JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

SMO:EMV:sms\CHH

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